

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
LAURENS, IOWA
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LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
LAURENS, IOWA
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert O. Braesch	Trustee	April, 2011
Richard Main	Trustee	April, 2013
Brad Olsen	Trustee	April, 2015

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Laurens Municipal Broadband Communications Utility
Laurens, Iowa

We have audited the accompanying balance sheets of Laurens Municipal Broadband Communications Utility, a component unit of City of Laurens, as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Laurens Municipal Broadband Communications Utility as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2010, on our consideration of Laurens Municipal Broadband Communications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 8, and 18 through 19, are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

June 18, 2010

Hunzelman, Putzier & Co.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Laurens Municipal Broadband Communications Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Utility's operating revenues decreased 10%, or \$97,353 from 2008 to 2009.
- The Utility's operating expenses were 2%, or \$15,895, more in 2009 than in 2008.
- The Utility's net assets decreased 18%, or \$117,989, from December 31, 2008 to December 31, 2009.

USING THIS ANNUAL REPORT

Laurens Municipal Broadband Communications Utility is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Laurens Municipal Broadband Communications Utility's financial statements. The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Utility's financial activities.
- The Balance Sheets present information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.
- The Statements of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses, and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.
- The Statements of Cash Flows present the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.
- The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE UTILITY

Statements of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets for 2009 totaled approximately \$540,000. This compares to approximately \$658,000 for 2008. A summary of the Utility's net assets is presented below.

	<u>2009</u>	<u>2008</u>
Current assets	\$ 509,942	\$ 569,812
Capital assets at cost, less accumulated depreciation	<u>246,364</u>	<u>307,935</u>
Total assets	<u>756,306</u>	<u>877,747</u>
Current liabilities	<u>216,165</u>	<u>219,617</u>
Total liabilities	<u>216,165</u>	<u>219,617</u>
Net assets:		
Invested in capital assets	246,364	307,935
Unrestricted	<u>293,777</u>	<u>350,195</u>
Total net assets	<u>\$ 540,141</u>	<u>\$ 658,130</u>

The largest portion of the Utility's net assets (54%) is the unrestricted net assets that can be used to meet the Utility's obligations as they come due. The remaining net assets (46%) are invested in capital assets (e.g., land, buildings, and equipment).

FINANCIAL ANALYSIS OF THE UTILITY – (Continued)

Statements of Revenues, Expenses, and Changes in Net Assets

Operating revenues are received for providing cable, internet, and telephone services to the residents of the City. Operating expenses are expenses paid to operate the Utility. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2009 and 2008, is presented below:

	<u>Changes in Net Assets</u>	
	<u>2009</u>	<u>2008</u>
Operating revenues:		
Cable services	\$ 233,440	\$ 227,594
Telephone services	314,916	400,973
Internet services	156,633	155,154
Other operating revenue	<u>155,915</u>	<u>174,536</u>
Total operating revenue	<u>860,904</u>	<u>958,257</u>
Operating expenses:		
Cable and internet services	327,221	300,546
Telephone services	265,392	331,988
Depreciation	111,702	100,313
Customers' accounts expense	4,000	2,888
Administrative and general expense	217,525	197,735
Head end expenses – maintenance	6,016	3,332
Head end expenses - operations	<u>47,037</u>	<u>26,196</u>
Total operating expenses	<u>978,893</u>	<u>962,998</u>
Decrease in net assets	(117,989)	(4,741)
Net assets, beginning of year	<u>658,130</u>	<u>662,871</u>
Net assets, end of year	<u>\$ 540,141</u>	<u>\$ 658,130</u>

The Statements of Revenues, Expenses, and Changes in Net Assets reflect a negative year with a decrease in the net assets from 2008 to 2009.

The Utility's operating revenues decreased 10%, or \$97,353, from 2008 to 2009, because of our customer base changing from using long distance on land line phones to using cell phones, and because the federal government is forcing us to reduce our access fees, we charge long distance carriers for using our local networks.

The Utility's operating expenses increased 2%, or \$15,895, from 2008 to 2009.

Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, noncapital financing, and capital and related financing activities. Cash provided by operating activities includes charges for service reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes the purchase of capital assets.

CAPITAL ASSETS

At December 31, 2009, the Utility had approximately \$246,000 invested in capital assets, net of accumulated depreciation of approximately \$919,000. Depreciation charges totaled \$111,702 for 2009. More detailed information about the Utility's capital assets is presented in Note 3 to the financial statements and in Schedule 1 of the supplementary information.

ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.
- Staying competitive with the large nation-wide companies not only with the services offered but also the price of these services.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Laurens Municipal Power and Communications Utility, 272 N. Third Street, Laurens, Iowa.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

Exhibit A

ASSETS

	<u>2009</u>			<u>2008</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>CAPITAL ASSETS</u>				
Land	\$ -	\$ 8,280	\$ 8,280	\$ 8,280
Plant in service	<u>128,889</u>	<u>1,027,855</u>	<u>1,156,744</u>	<u>1,106,613</u>
	128,889	1,036,135	1,165,024	1,114,893
Less accumulated depreciation	<u>102,076</u>	<u>816,584</u>	<u>918,660</u>	<u>806,958</u>
Total capital assets	<u>26,813</u>	<u>219,551</u>	<u>246,364</u>	<u>307,935</u>
<u>CURRENT ASSETS</u>				
Cash and cash equivalents	623,111	(427,267)	195,844	85,758
Accounts receivable (less provision for doubtful accounts of \$13,000 in 2009 and \$10,000 in 2008)	44,779	35,310	80,089	98,066
Due from electric utility	231,875	-	231,875	383,684
Prepaid expenses	<u>1,494</u>	<u>640</u>	<u>2,134</u>	<u>2,304</u>
Total current assets	<u>901,259</u>	<u>(391,317)</u>	<u>509,942</u>	<u>569,812</u>
Total assets	<u>\$ 928,072</u>	<u>\$ (171,766)</u>	<u>\$ 756,306</u>	<u>\$ 877,747</u>

LIABILITIES AND NET ASSETS

<u>CURRENT AND ACCRUED LIABILITIES</u>				
Accounts payable	\$ 97,632	\$ 108,898	\$ 206,530	\$ 210,341
Other current and accrued liabilities	<u>6,560</u>	<u>3,075</u>	<u>9,635</u>	<u>9,276</u>
Total current and accrued liabilities	<u>104,192</u>	<u>111,973</u>	<u>216,165</u>	<u>219,617</u>
<u>NET ASSETS</u>				
Invested in capital assets	26,813	219,551	246,364	307,935
Unrestricted	<u>797,067</u>	<u>(503,290)</u>	<u>293,777</u>	<u>350,195</u>
Total net assets	<u>823,880</u>	<u>(283,739)</u>	<u>540,141</u>	<u>658,130</u>
Total liabilities and net assets	<u>\$ 928,072</u>	<u>\$ (171,766)</u>	<u>\$ 756,306</u>	<u>\$ 877,747</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Exhibit B

	<u>2009</u>			<u>2008</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>	<u>\$ 441,618</u>	<u>\$ 419,286</u>	<u>\$ 860,904</u>	<u>\$ 958,257</u>
<u>OPERATING EXPENSES</u>				
CATV and internet services	-	327,221	327,221	300,546
Telephone services	265,392	-	265,392	331,988
Depreciation and amortization	10,022	101,680	111,702	100,313
Customers' accounts expense	(2,000)	6,000	4,000	2,888
Administrative and general expense	155,479	62,046	217,525	197,735
Head end expenses - maintenance	1,583	4,433	6,016	3,332
Head end expenses - operations	<u>17,487</u>	<u>29,550</u>	<u>47,037</u>	<u>26,196</u>
Total operating expenses	<u>447,963</u>	<u>530,930</u>	<u>978,893</u>	<u>962,998</u>
Change in net assets	(6,345)	(111,644)	(117,989)	(4,741)
Net assets, beginning of year	<u>830,225</u>	<u>(172,095)</u>	<u>658,130</u>	<u>662,871</u>
Net assets, end of year	<u>\$ 823,880</u>	<u>\$ (283,739)</u>	<u>\$ 540,141</u>	<u>\$ 658,130</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Exhibit C

	<u>2009</u>			<u>2008</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>CASH FLOWS FROM</u>				
<u>OPERATING ACTIVITIES:</u>				
Cash received from customers	\$ 459,947	\$ 418,934	\$ 878,881	\$ 950,435
Cash paid to suppliers for goods and services	(350,824)	(384,729)	(735,553)	(731,847)
Cash paid to employees for services	(92,437)	(42,483)	(134,920)	(118,764)
Net cash provided by (used in) operating activities	<u>16,686</u>	<u>(8,278)</u>	<u>8,408</u>	<u>99,824</u>
<u>CASH FLOWS FROM NONCAPITAL</u>				
<u>FINANCING ACTIVITIES</u>				
Advances to electric utility	-	-	-	(60,938)
Repayments from electric utility	<u>151,809</u>	<u>-</u>	<u>151,809</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>151,809</u>	<u>-</u>	<u>151,809</u>	<u>(60,938)</u>
<u>CASH FLOWS FROM CAPITAL AND</u>				
<u>RELATED FINANCING ACTIVITIES:</u>				
Additions to utility plant	<u>(24,459)</u>	<u>(25,672)</u>	<u>(50,131)</u>	<u>(46,585)</u>
<u>NET INCREASE (DECREASE) IN CASH AND</u>				
<u>CASH EQUIVALENTS</u>	<u>144,036</u>	<u>(33,950)</u>	<u>110,086</u>	<u>(7,699)</u>
Cash and cash equivalents at beginning of year	<u>479,075</u>	<u>(393,317)</u>	<u>85,758</u>	<u>93,457</u>
<u>CASH AND CASH EQUIVALENTS AT END</u>				
<u>OF YEAR</u>	<u>\$ 623,111</u>	<u>\$ (427,267)</u>	<u>\$ 195,844</u>	<u>\$ 85,758</u>
<u>RECONCILIATION OF OPERATING LOSS</u>				
<u>TO CASH PROVIDED BY OPERATING ACTIVITIES:</u>				
Operating loss	\$ (6,345)	\$ (111,644)	\$ (117,989)	\$ (4,741)
Adjustments to reconcile operating loss to cash provided by operating activities:				
Depreciation	10,022	101,680	111,702	100,313
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable	18,329	(352)	17,977	(7,822)
Decrease in prepaid expenses	119	51	170	70
Increase (decrease) in accounts payable	(6,003)	2,192	(3,811)	11,673
Increase (decrease) in other liabilities	<u>564</u>	<u>(205)</u>	<u>359</u>	<u>331</u>
Total adjustments	<u>23,031</u>	<u>103,366</u>	<u>126,397</u>	<u>104,565</u>
Net cash provided by (used in) operating activities	<u>\$ 16,686</u>	<u>\$ (8,278)</u>	<u>\$ 8,408</u>	<u>\$ 99,824</u>

The accompanying notes are an integral part of this statement.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Laurens Municipal Broadband Communications Utility is a component unit of City of Laurens. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Laurens Municipal Broadband Communications Utility provides telephone, cable, and internet services to consumers in Laurens, Iowa. Sale of local telephone, cable, and internet services are billed on the twentieth of each month for service from the first to the end of the month billed. Sales of long distance telephone service are billed on the twentieth of each month for usage through the fifteenth of the month. An unbilled receivable in the amount of \$1,220 has been recorded (\$1,351 at December 31, 2008) for the period December 15 through December 31. Laurens Municipal Broadband Communications Utility is billed by their telephone, cable, and internet providers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reporting Entity

For financial reporting purposes, Laurens Municipal Broadband Communications Utility has included all funds. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Laurens Municipal Broadband Communications Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Laurens Municipal Broadband Communications Utility are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2009.

Budgets and Budgetary Accounting - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2009 expenses exceeded the amount budgeted.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

2. DEPOSITS

The Utility's deposits in banks at December 31, 2009, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397, days but the maturities shall be consistent with the needs and use of the Utility.

The Utility had no investments meeting the disclosure requirements of *Governmental Auditing Standards Board* Statement Number 3, as amended by Statement Number 40.

3. CAPTIAL ASSETS AND DEPRECIATION PROCEDURES

Capital asset activity for the year ended December 31, 2009 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 8,280	\$ -	\$ -	\$ 8,280
Capital assets being depreciated:				
Distribution plant – telephone	59,681	24,459	-	84,140
Other equipment – telephone	44,749	-	-	44,749
Distribution plant – CATV & internet	965,028	25,672	-	990,700
Other equipment – CATV & internet	37,155	-	-	37,155
Total capital assets being depreciated	<u>1,106,613</u>	<u>50,131</u>	<u>-</u>	<u>1,156,744</u>
Less accumulated depreciation for:				
Distribution plant – telephone	57,138	7,191	-	64,329
Other equipment – telephone	34,916	2,831	-	37,747
Distribution plant – CATV & internet	685,369	99,221	-	784,590
Other equipment – CATV & internet	29,535	2,459	-	31,994
Total accumulated depreciation	<u>806,958</u>	<u>111,702</u>	<u>-</u>	<u>918,660</u>
Total capital assets being depreciated, net	<u>299,655</u>	<u>(61,571)</u>	<u>-</u>	<u>238,084</u>
Net capital assets	<u>\$ 307,935</u>	<u>\$ (61,571)</u>	<u>\$ -</u>	<u>\$ 246,364</u>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

3. CAPTIAL ASSETS AND DEPRECIATION PROCEDURES - (Continued)

Capital asset activity for the year ended December 31, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 8,280	\$ -	\$ -	\$ 8,280
Capital assets being depreciated:				
Distribution plant – telephone	59,681	-	-	59,681
Other equipment – telephone	43,863	886	-	44,749
Distribution plant – CATV & internet	919,709	45,319	-	965,028
Other equipment – CATV & internet	36,775	380	-	37,155
Total capital assets being depreciated	<u>1,060,028</u>	<u>46,585</u>	<u>-</u>	<u>1,106,613</u>
Less accumulated depreciation for:				
Distribution plant – telephone	51,170	5,968	-	57,138
Other equipment – telephone	32,090	2,826	-	34,916
Distribution plant – CATV & internet	596,325	89,044	-	685,369
Other equipment – CATV & internet	27,060	2,475	-	29,535
Total accumulated depreciation	<u>706,645</u>	<u>100,313</u>	<u>-</u>	<u>806,958</u>
Total capital assets being depreciated, net	<u>353,383</u>	<u>(53,728)</u>	<u>-</u>	<u>299,655</u>
Net capital assets	<u>\$ 361,663</u>	<u>\$ (53,728)</u>	<u>\$ -</u>	<u>\$ 307,935</u>

Provision for depreciation and amortization has been computed at straight-line rates over the estimated useful lives of the property.

4. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% (4.10% through June 30, 2009) of their annual covered salary and the Utility is required to contribute 6.65% (6.35% through June 30, 2009) of annual covered salary. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ending December 31, 2009, 2008, and 2007, were \$7,570, \$6,378, and \$6,196, respectively, equal to the required contributions for each year.

5. RISK MANAGEMENT

Laurens Municipal Broadband Communications Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

6. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Laurens, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

7. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Laurens Municipal Broadband Communications Utility and the Laurens Municipal Light and Power Plant have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$175,000 on or before the first day of June each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and payments are due June 1 of each year.

REQUIRED SUPPLEMENTARY INFORMATION

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2009

	<u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to</u>
		<u>Original</u>	<u>Final</u>	<u>Actual</u>
				<u>Variance</u>
Revenues:				
Use of money and property	\$ 7,654	\$ 8,000	\$ 8,000	\$ (346)
Charges for Services	842,117	811,000	811,000	31,117
Miscellaneous	<u>11,133</u>	<u>104,000</u>	<u>104,000</u>	<u>(92,867)</u>
	860,904	923,000	923,000	(62,096)
Expenses	<u>978,893</u>	<u>962,000</u>	<u>973,000</u>	<u>(5,893)</u>
Net	(117,989)	(39,000)	(50,000)	(67,989)
Net assets, beginning of year	<u>658,130</u>	<u>673,871</u>	<u>658,130</u>	<u>-</u>
Net assets, end of year	<u>\$ 540,141</u>	<u>\$ 634,871</u>	<u>\$ 608,130</u>	<u>\$ (67,989)</u>

See accompanying independent auditor's report.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
DECEMBER 31, 2009

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

During the year, one budget amendment increased budgeted expenses by \$11,000.

Expenses exceeded the amount budgeted for the year ended December 31, 2009.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees
Laurens Municipal Broadband Communications Utility
Laurens, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

June 18, 2010

Hunzelman, Putzier & Co.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>			<u>2008</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING REVENUES</u>				
Sale of cable services:				
Basic and digital cable	\$ -	\$ 233,440	\$ 233,440	\$ 227,594
Sale of telephone services:				
Local	174,161	-	174,161	189,696
Long distance	28,666	-	28,666	28,458
Access fees	112,089	-	112,089	182,819
Internet	-	156,633	156,633	155,154
Transport fee credits	83,325	-	83,325	90,900
Special circuits	21,738	-	21,738	20,790
Other	13,967	-	13,967	13,158
USAC - High cost	1,079	-	1,079	2,688
Wireless phone sales/commissions	573	-	573	11,600
Tower lease fees	-	7,654	7,654	19,260
Converters	-	16,446	16,446	9,676
Miscellaneous	6,020	5,113	11,133	6,464
Total operating revenue	<u>441,618</u>	<u>419,286</u>	<u>860,904</u>	<u>958,257</u>
<u>OPERATING EXPENSES</u>				
Cost of service:				
Basic and digital programming	-	193,139	193,139	171,753
Internet fees	-	44,357	44,357	38,393
Transport fees	17,708	4,725	22,433	25,844
Switching fees	60,704	-	60,704	72,270
Long distance fees	34,211	-	34,211	49,818
Access fees	39,809	-	39,809	69,399
Billing fees	15,299	-	15,299	19,758
Illuminet fees	7,247	-	7,247	1,910
Directory listing fees	158	-	158	5,448
Wireless fees	256	-	256	2,941
Joint use fees	90,000	85,000	175,000	175,000
Total cost of service	<u>265,392</u>	<u>327,221</u>	<u>592,613</u>	<u>632,534</u>
Head end system:				
Wages and benefits	12,872	18,209	31,081	15,906
Operating expenses and supplies	4,615	11,341	15,956	10,290
Maintenance and repairs	935	3,876	4,811	1,678
Buildings and grounds	648	557	1,205	1,654
Depreciation	7,191	99,221	106,412	95,012
Total head end system	<u>26,261</u>	<u>133,204</u>	<u>159,465</u>	<u>124,540</u>
Customers' accounts expense:				
Bad debt expense (recoveries)	(2,000)	6,000	4,000	2,888
Administrative and general expense:				
Administrative and general salaries	79,969	24,076	104,045	102,353
Office supplies and postage	7,528	3,330	10,858	12,089
Audits, legal, and consultation services	15,598	3,236	18,834	16,224
Property insurance	3,126	1,559	4,685	4,790

(Continued)

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>			<u>2008</u>
	<u>Telephone</u>	<u>CATV & Internet</u>	<u>Total</u>	<u>Total</u>
<u>OPERATING EXPENSES - (Continued)</u>				
Administrative and general expense: (Continued)				
Compensation insurance	\$ 731	\$ 602	\$ 1,333	\$ 4,231
Employees' group insurance	26,320	11,276	37,596	21,321
Trustees' fees	600	300	900	900
Dues and subscriptions	3,534	1,214	4,748	4,568
Franchise requirement - cost of services to City of Laurens	258	12,939	13,197	12,927
Legal publications	1,239	572	1,811	937
Advertising and promotion	2,621	1,344	3,965	2,097
Convention, meeting, and travel expense	287	105	392	386
Depreciation	2,831	2,459	5,290	5,301
Motor vehicle and work equipment expense	2,723	1,034	3,757	3,708
E911 fees	8,397	-	8,397	9,029
Miscellaneous	<u>2,548</u>	<u>459</u>	<u>3,007</u>	<u>2,175</u>
Total administrative and general expense	<u>158,310</u>	<u>64,505</u>	<u>222,815</u>	<u>203,036</u>
Total operating expense	<u>447,963</u>	<u>530,930</u>	<u>978,893</u>	<u>962,998</u>
Operating loss	<u>\$ (6,345)</u>	<u>\$ (111,644)</u>	<u>\$ (117,989)</u>	<u>\$ (4,741)</u>

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
COMMUNICATIONS PLANT
DECEMBER 31, 2009

Schedule 1

	Utility Plant						Accumulated Depreciation				
	Balance January 1, 2009	Additions	Transfers	Deletions	Balance December 31, 2009	Depreciation Rate	Balance January 1, 2009	Expense	Transfers	Retirements	Balance December 31, 2009
<u>TELEPHONE PLANT</u>											
<u>Distribution System</u>											
Head end equipment	\$ 59,681	\$ 24,459	\$ -	\$ -	\$ 84,140	10.00%	\$ 57,138	\$ 7,191	\$ -	\$ -	\$ 64,329
<u>Other Equipment</u>											
Office furniture and fixtures	17,172	-	-	-	17,172	6.70-20.00	10,585	1,249	-	-	11,834
Transportation equipment	12,759	-	-	-	12,759	20.00	12,759	-	-	-	12,759
Laboratory equipment	14,270	-	-	-	14,270	10.00	11,024	1,582	-	-	12,606
Communication equipment	548	-	-	-	548	10.00	548	-	-	-	548
	<u>44,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,749</u>		<u>34,916</u>	<u>2,831</u>	<u>-</u>	<u>-</u>	<u>37,747</u>
Total telephone plant in service	<u>104,430</u>	<u>24,459</u>	<u>-</u>	<u>-</u>	<u>128,889</u>		<u>92,054</u>	<u>10,022</u>	<u>-</u>	<u>-</u>	<u>102,076</u>
<u>CATV AND INTERNET PLANT</u>											
<u>Distribution System</u>											
Land	8,280	-	-	-	8,280	0.00	-	-	-	-	-
Towers and antennas	142,058	-	-	-	142,058	5.00	71,030	7,103	-	-	78,133
Buildings	7,105	-	-	-	7,105	5.00	3,537	355	-	-	3,892
Tower site equipment	18,545	-	-	-	18,545	10.00	18,347	198	-	-	18,545
Head end equipment	735,365	25,672	-	-	761,037	10.00	530,500	91,565	-	-	622,065
Satellite dishes	52,589	-	-	-	52,589	10.00	52,589	-	-	-	52,589
Traps and filters	9,366	-	-	-	9,366	20.00	9,366	-	-	-	9,366
	<u>973,308</u>	<u>25,672</u>	<u>-</u>	<u>-</u>	<u>998,980</u>		<u>685,369</u>	<u>99,221</u>	<u>-</u>	<u>-</u>	<u>784,590</u>
<u>Other Equipment</u>											
Office furniture and fixtures	14,047	-	-	-	14,047	6.70-20.00	9,370	1,014	-	-	10,384
Transportation equipment	8,506	-	-	-	8,506	20.00	8,506	-	-	-	8,506
Laboratory equipment	14,236	-	-	-	14,236	10.00	11,293	1,445	-	-	12,738
Communication equipment	366	-	-	-	366	10.00	366	-	-	-	366
	<u>37,155</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,155</u>		<u>29,535</u>	<u>2,459</u>	<u>-</u>	<u>-</u>	<u>31,994</u>
Total CATV and internet plant in service	<u>1,010,463</u>	<u>25,672</u>	<u>-</u>	<u>-</u>	<u>1,036,135</u>		<u>714,904</u>	<u>101,680</u>	<u>-</u>	<u>-</u>	<u>816,584</u>
Total Utility Plant	<u>\$ 1,114,893</u>	<u>\$ 50,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,165,024</u>		<u>\$ 806,958</u>	<u>\$ 111,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 918,660</u>

HUNZELMAN, PUTZIER & CO., PLC
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Laurens Municipal Broadband Communications Utility
Laurens, Iowa

We have audited the accompanying financial statements of Laurens Municipal Broadband Communications Utility, as of and for the year ended December 31, 2009, and have issued our report thereon dated June 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Laurens, Iowa and other parties to whom Laurens Municipal Broadband Communications Utility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

June 18, 2010

Hungelman, Putzger & Co.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part I: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board of Trustees along with the General Manager will review the financial statements and internal control procedures, in detail, every month. The duties of opening mail, bank deposits, recording receipts and disbursements, bank reconciliations and payroll preparation will be monitored daily by the General Manager. The Utility will continue to require two (2) signatures on all check disbursements.

Conclusion - Response accepted.

- (B) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional educational courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - The Utility will work to obtain additional training for our staff in order to improve our ability to prepare reliable monthly financial statements. The Utility will continue to work with our auditors on a monthly basis in order to keep our records up to date.

Conclusion - Response accepted.

- (C) Accounts Receivable - We noted that the monthly accounts receivable listing is not reviewed by the Board.

Recommendation - The Board should review an aged accounts receivable listing periodically and determine accounts which should be classified as uncollectible or should be selected for alternative collection procedures.

Response - The Board of Trustees and the General Manager will review the aged accounts receivable listing at least on an annual basis to determine which accounts should be classified as uncollectible.

Conclusion - Response accepted.

LAURENS MUNICIPAL BROADBAND COMMUNICATIONS UTILITY
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part II: Other Findings Related to Required Statutory Reporting

1. Budget - Utility expenses during the year ended December 31, 2009, exceeded the amounts budgeted.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before expenses were allowed to exceed the budget.

Response - The Board of Trustees and the General Manager will work to improve our financial planning and carefully review the financial statements each month to monitor our expenses as they relate to the budget.

Conclusion - Response accepted.
2. Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.
4. Business Transactions - We noted no business transactions between the Utility and Utility officials or employees.
5. Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
7. Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.
8. Telecommunications Services - No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.